

SERVICE DATE – JUNE 6, 2019

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 431 (Sub-No. 4)

REVIEW OF THE GENERAL PURPOSE COSTING SYSTEM

Digest:¹ The Board sought comment on proposed modifications to its Uniform Railroad Costing System, including elimination of a feature known as the “make-whole adjustment” and related changes to locomotive unit-mile and train-mile cost allocations. The Board will discontinue this proceeding.

Decided: June 5, 2019

In a Notice of Proposed Rulemaking (NPR) served in this docket on February 4, 2013, the Board sought public comment on proposals to modify the Board’s general purpose costing system, the Uniform Railroad Costing System (URCS), to eliminate a feature known as the “make-whole adjustment” and to adjust the locomotive unit-mile (LUM) cost allocation. After evaluating comments received in response to the NPR, the Board served a Supplemental Notice of Proposed Rulemaking (SNPR) on August 4, 2016, with modified proposals for eliminating the make-whole adjustment and changing the LUM cost allocation, and a new proposal to modify train-mile (TM) cost allocations. For the reasons stated below, the Board will discontinue this proceeding.

DISCUSSION AND CONCLUSIONS

As discussed in prior decisions in this proceeding, the Board uses URCS for a variety of regulatory functions. URCS is used in rate reasonableness proceedings as part of the initial market dominance determination. URCS also plays a role in the Board’s determination of whether a rate exceeds a reasonable maximum, and, when warranted, setting the maximum rate prescription. In addition, URCS is used to develop variable costs for making cost determinations in abandonment, certain trackage rights, and other proceedings; to provide the railroad industry and shippers with a standardized costing model; to cost the Board’s Carload Waybill Sample; and to provide interested parties with basic cost information regarding railroad industry operations.

¹ The digest constitutes no part of the decision of the Board but has been prepared for the convenience of the reader. It may not be cited to or relied upon as precedent. See Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

URCS develops a regulatory cost estimate that can be applied to a service that occurs anywhere on a rail carrier's system. These cost estimates are developed through three distinct phases of URCS.

- Phase I occurred only once when URCS was originally developed using the annual reports submitted by Class I rail carriers (R-1 reports). Regression analyses were performed to develop equations linking expense account groupings with particular measures of railroad activities.
- Annually, in Phase II, URCS takes the aggregated cost data and traffic statistics provided by Class I carriers in their most recent R-1 reports and other reports and disaggregates them by calculating system-average unit costs associated with specific rail activities.
- In Phase III, when movements are costed, URCS takes the unit costs from Phase II and applies them to the characteristics of a particular movement in order to calculate the variable cost of that movement.

The Board initiated this proceeding to address concerns with the make-whole adjustment, which is calculated and applied in Phase III. The make-whole adjustment is intended to recognize the efficiency savings that a carrier obtains in its higher-volume shipments and thus render more appropriate unit costs. The Board questioned whether the current make-whole adjustment best reflects economies of scale as shipment size increases. Review of the General Purpose Costing System (NPR), EP 431 (Sub-No. 4), slip op. at 4 (STB served Feb. 4, 2013); Review of the General Purpose Costing System (SNPR), EP 431 (Sub-No. 4), slip op. at 3-4 (STB served Aug. 4, 2016). The Board noted that, as applied, the make-whole adjustment creates particular types of step functions between shipment sizes by reducing system-average unit costs by various set percentages depending on whether the movement is classified as unit train, multi-car, or single-car. NPR, EP 431 (Sub-No. 4), slip op. at 3-4; SNPR, EP 431 (Sub-No. 4), slip op. at 4-5. While the current URCS methodology generally reflects economies of scale across those movement classifications, the Board proposed ways to attempt to reflect economies of scale within those movement classifications to better address economies of scale overall.

To address the concerns with the make-whole adjustment, the NPR proposed changes to switching costs related to switch engine minutes, equipment costs for the use of railroad-owned equipment during switching, station clerical costs, and car-mile costs, as well as other related changes to URCS. NPR, EP 431 (Sub-No. 4), slip op. at 5-9. The NPR also proposed changes to the LUM cost allocation. Id. at 9-10. With respect to switching costs, the NPR proposed to allocate costs on a shipment basis. Id. at 5-6.

After reviewing comments in response to the NPR, the Board modified its proposal in the SNPR by changing how the current efficiency adjustments would be applied to switching costs, railroad-owned equipment costs, station clerical costs, and car-mile costs. SNPR, EP 431 (Sub-No. 4), slip op. at 7-20. The SNPR also proposed to address step functions arising from LUM and TM cost allocations. Id. at 25-28. With respect to switching costs, the SNPR proposed to implement a new concept called the Carload Weighted Block (CWB) Adjustment,

which would incorporate parties' NPR comments that switching costs should be allocated based not just on an event component (the shipment), but on a time component (influenced by the number of cars in a shipment) as well. Id. at 9-11.

The Board held a technical workshop regarding the SNPR proposals on September 7, 2016, and then received public comments on October 11, 2016, and reply comments on November 7, 2016.² While these comments were not uniformly critical, many stakeholders expressed concerns about various aspects of the SNPR proposals. No commenter supported the CWB Adjustment and several commenters generally opposed other aspects of the SNPR, including proposals to modify the calculation of railroad-owned equipment costs, and car-mile costs.

The Board recognizes and appreciates the substantial effort undertaken by stakeholders in this proceeding to assist the Board in grappling with the complexities of URCS. The Board continues to believe that URCS can be updated to better reflect economies of scale and improve cost allocations. However, the Board has determined that potential refinements of URCS would benefit from additional study and analysis, as most commenters argued. Given the need for further study and analysis to arrive at a more optimal revision of the URCS system, and to also ensure efficient docket management, the Board will not take further action in this proceeding and will discontinue this docket. Any future proposals by the Board to update URCS would be made in a new proceeding.

It is ordered:

1. This proceeding is discontinued.
2. Notice of the Board's action will be published in the Federal Register.
3. This decision is effective on its date of service.

By the Board, Board Members Begeman, Fuchs, and Oberman.

² The following parties filed comments and reply comments on the SNPR in this proceeding: Association of American Railroads (AAR); Highroad Consulting, Ltd. (Highroad); SMART-Transportation Division-New York State Legislative Board (SMART-TD) (reply comments only); Union Pacific Railroad Company (UP); and Western Coal Traffic League (WCTL). Additionally, joint comments and reply comments were filed by the American Chemistry Council and others (referred to collectively as ACC).